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C O N F I D E N T I A L SECTION 01 OF 06 BUCHAREST 001653

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DEPT FOR EUR - MATT BRYZA
DEPT FOR EUR - MPEKALA

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SUBJECT: ROMANIA AND U.S. ON SAME WAVELENGTH - DAS BRYZA AT
REGIONAL ENERGY CONFERENCE

REF: BUCHAREST 411

Classified By: Ambassador Nicholas F. Taubman for reasons 1.5 (B) and (D).

SUMMARY

1. (C) Deputy Assistant Secretary Matt Bryza visited Bucharest October 26 to participate in a conference on Regional Energy Cooperation jointly sponsored by the Romanian Presidency, the U.S. and German Embassies, and the George C. Marshall Center) Romania. In this forum and in earlier meetings in Bucharest on September 14, Bryza discussed Romanian and European energy security issues and the development of a "Southern Corridor" to provide a gas transit alternative to Gazprom's monopolistic position in Europe. Romania's Ministers of Foreign Affairs and Economy, as well as senior Presidential and Prime Ministerial advisors have welcomed U.S. active participation, both political and commercial. Their message: U.S. support is essential to diversify gas supply to the continent. End Summary.

REGIONAL ENERGY CONFERENCE FOCUSES ON DIVERSIFICATION

2. (U) The Ambassador spoke of the challenges awaiting Europe if it does not seek to diversify energy sources in the near and mid-term. Demand is overtaking supply, and unless new energy sources come online, countries like Romania will not be able to sustain their impressive growth. That means aggressively pursuing new supply options and ensuring they will have an avenue to market. Southern Corridor projects such as the Nabucco pipeline are an important part of this equation. Other energy sources such as nuclear are another. Also key to the equation is improving energy efficiency and moving prices to a market basis. In countries throughout the region, Romania included, artificially cheap energy is sending the wrong signal to inefficient industries of the past. Helping the region move toward a 21st century economy requires the right market signals.

3. (U) German Ambassador Lohkamp, in his welcoming remarks, asserted that, although the media had characterized the recent Russia-EU summit in Finland as a disappointment, much progress had been made. Russia has always been a reliable energy partner for Germany. We must make sure that standard continues, he said, while calling for Europe to diversify its sources of gas supply. A written message from Ambassador Viktor Elbling, the German Foreign Ministry's Energy Coordinator, noted that last January's energy crisis between Russia and Ukraine demonstrated the lack of national cooperation on energy and the need for diversification of

both transit routes and suppliers of natural gas. (NOTE: See paragraph eight for Romania's views on Lahti)

¶4. (U) DAS Bryza recalled the Russia-Ukraine dispute of last January and its role in illustrating Europe's vulnerability to over-reliance on a single supply source and supplier. The point was reinforced when &terrorists8 disrupted the flow of gas to Georgia with well placed explosions on two gas lines. Gazprom's monopoly on much of the European energy market facilitates its anti-competitive behavior. While new options like the Turkey-Greece Interconnector represent only a fraction of supply for now, they will provide alternatives and contribute to the healthy competition Europe's energy markets require. Alternative supply networks will also address the large discrepancies between the purchase price of Central Asian gas and the sales price in Europe, which has contributed to organized crime and other unsavory activities.

¶5. (U) Russia must also open itself to foreign investment if it is to maintain its role as a reliable supplier to the European markets. Moscow's decision to close the Shtokman fields to foreign investment is a disappointment. Russia's supply network will require tens of billions of dollars to maintain, and this will require public private partnerships to accomplish.

¶6. (U) Head of the Russian Foreign Ministry's Office of International Cooperation, Mihail Ivanovici Savva, stressed the need to balance security of supply with demand, as &German logic dictates.8 He repeated Russian assertions that Caspian Sea Basin hydrocarbon resources cannot replace Russian supplies and that Russia will continue to play a role in the transportation of Caspian energy to Western markets. He also warned that Russia views energy as having a political as well as economic utility.

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BASESCU: SEEING EYE TO EYE

¶7. (U) In his keynote address, President Traian Basescu was on our wavelength: Europe must diversify its energy supply to avoid depending on a single source. He pulled no punches with Russia, saying one cannot ignore the "accidental damages" to the energy supply networks in neighboring countries. The Russia-Ukraine dispute last winter raised the question, "what political price do European countries have to pay to get energy from a single major supplier?"

¶8. (U) Basescu touted the Caspian Sea as an opportunity to break the monopoly of energy supplies from Russia. He stressed, however, that the Caspian countries do not have resources and capacities comparable with the Middle East. In addition, they run the risk of remaining dependant on Russia for transit, and face technical or political vulnerabilities.

¶9. (U) Finally, he remarked provocatively at the closing of the first session that, while the EU is talking about a united foreign policy regarding energy, each country has its own internal policy, with different approaches to privatization and deregulation. &How can we have a united foreign policy when we have completely different internal policies?8

BASESCU'S PEOPLE- ILINOIU: WORRIED ABOUT EUROPE'S DIRECTION

¶10. (C) In a side meeting with DAS Bryza, Basescu's chief international relations advisor Anca Ilinoiu reinforced the President's message. Romania fully shares U.S. concerns on Gazprom's tactics, she said. She echoed Basescu's statements that Gazprom was a new, more efficient Red Army, noting that the placement of Gazprom's new gas storage units mirrors the placement of Soviet bases during the Cold War. Projects that Romania is pursuing have found themselves side-tracked due to the country's anti-monopoly stance. Romania's gas imports are the most expensive of the former Warsaw Pact countries (\$285 per 1000 cubic meters) due to this and Romania's

refusal to concede sale/control of strategic energy assets to Russia. As example, Ilinoiu recalled several Romanian understandings with Kazakhstan that fell through following President Putin and Nazarbayev's meeting in May. Romania hoped to alter the dynamic in March 2007 when Nazarbayev will pay a state visit to Bucharest.

¶11. (C) Ilinoiu reflected the President's doubts that the EU would resolve or improve the issue. Basescu had been shocked by European weakness at the EU-Russia summit in Lahti. Putin put on an excellent performance, waxing over dismissals of the Energy Charter, provocations in Georgia, human rights violations and the Politkovskaya assassination. However, his rhetoric was strong and aggressive, saying Russia was prepared for military intervention in Georgia. The 25 EU leaders sat there and heard it with smiles on their faces. Only Tony Blair reflected appropriate disappointment by leaving the Summit dinner early. Basescu commented on the plane ride home, &What is this group we're joining?!8 After repeated incredulous complaints from the Romanian delegation, the Finns admitted in frustration that Germany had insisted they host the dinner.

¶12. (C) Ilinoiu worried that Germany's relationship with France had become perhaps too close, with both increasingly reliant on Russian-owned energy. As North Sea reserves dwindle, the UK may be forced to turn to Russia as well in the face of more expensive Norwegian liquefied natural gas (LNG). If this happens, Europe's ability to positively influence Russian behavior could be wholly circumscribed. Romania has heard rumors that Germany will take up the Moldova issue during its upcoming EU Presidency, and that a solution has largely been outlined by Chancellor Merkel and Putin. Think of the irony that the Moldovan problem could be addressed by a Russian-German solution, the same way it was created 65 years ago, she said. Germany also plans to &fix8 Europe's energy problems. What other surprises do they have for us during their Presidency, she wondered.

¶13. (C) Regarding Turkey, the other major Black Sea power, Ilinoiu worried that Turkish intransigence is foiling Romanian efforts at energy diversification. Romania wants to develop additional nuclear energy capacity, with three new reactors for domestic use and a fourth for export, largely to Moldova to help reduce its dependence on Russian power.

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However, this requires expanding the Cernavoda cooling pond, which is sourced by the Danube River. All downstream countries would have to approve, which means Russia and Turkey, and which Ilinoiu believed were unlikely to offer consent. Romania is also seeking to procure LNG from Qatar, but securing access to the Black Sea for LNG via the Turkish Straits remains the great wildcard. While LNG is not specifically banned, Turkey can find a whole host of reasons to slow or keep shipments out (e.g. cumbersome safety inspections), and has indicated it will. Ilinoiu suggested that Romania and the U.S. press the Turks to reconsider the Montreaux Convention, stressing that &Montreaux is not a sacred cow.8 Some Romanian NGOs had floated the idea at conferences in Turkey, to a terrible reception, of course. Ilinoiu lamented that what Turkey does not understand is that they are our major partners here. Nothing in Romania's approach is meant as a threat to Turkey. Basescu is the only European figure that fully supports integration of both Turkey and the Caucasus into the EU and NATO. Our national obsession is to remove ourselves from Russian influence. Turkey should trust us, she said.

¶14. (C) In response to an inquiry from Ilinoiu, DAS Bryza warned Ilinoiu about revisiting the Montreaux Convention. He explained how even Turkey's top strategic thinkers misperceived previous discussions of an expanded NATO maritime presence in the Black Sea as a veiled attempt to undermine the Montreaux Convention, and the limited jurisdiction over the Straits that the Convention affords

Turkey. For many Turkish strategists, it was a short step to seeing a broader conspiracy by the &Western Powers⁸ to weaken not only the Montreaux Convention, but the Treaty of Lausanne as well, which provides the legal foundation of the Turkish Republic. These steps, coupled with discussions of federalism) and Kurdish autonomy -- in Iraq, rekindle historical memories) and paranoia) in Turkey that the U.S. seeks to dismantle the Turkish Republic. A more effective approach to Romania's quest for LNG shipments into the Black Sea would be for Romania and the U.S. to broach the subject directly with Ankara, making clear we were not calling into question the Montreaux Convention. The U.S. had done a great deal over the past decade in helping Turkey achieve its goal of reducing oil traffic through the Turkish Straits by realizing the Baku-Tbilisi-Ceyhan oil pipeline. Perhaps Ankara could now show an equally constructive attitude with regard to LNG shipments into Romania, which could also help Ukraine and other countries in the region diversify their gas supplies.

¶15. (C) Ilinoiu then turned to Serbia, stressing the need to keep the country on &Western pipelines of interest,⁸ literally and figuratively. She noted that Romania and Serbia would soon conclude a gas pipeline connection, which could be fed by LNG, thereby keeping Serbia oriented toward the Euroatlantic community. Russia has indicated it may divert Burgas-Alexandroupolis through Serbia. If Serbia is linked to Burgas, then the country is in Russian hands, she said. For strategic purposes, energy links to Serbia should run through Romania. Romania and Serbia have an understanding, and Romania is in the best position to keep Serbia on a Western footing. She noted that, of all the Balkan countries, Romanian and Serbia are the only two never to go to war with each other.

¶16. (C) Ilinoiu mentioned that Romania's strong backing for U.S. efforts across the board does not come without a price tag. Romania counts on continued strong U.S. support on Moldova, she said. Bryza stressed U.S. support for Moldova, and for an internationalized peacekeeping force in Transnistria.

¶17. (C) Bryza pressed for Romania to work with Hungary and other countries in the region to forge a greater sense of unity in negotiating energy deals with Russian suppliers. He cited as particularly significant in this regard the Treaty of Athens, signed in October 2005 and entering into force in May 2006, which aims to harmonize gas and electricity markets in Southeast Europe.

BASESCU'S PEOPLE) MEDAR: US ROLE HELPS COUNTER PRESSURE

¶18. (C) During an earlier visit to Bucharest, on September 14, DAS Bryza met with Basescu's National Security Advisor, Gen. (r) Sergiu Medar to discuss energy security. Medar expressed his strong support for U.S. involvement in

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developing energy alternatives in Europe, especially the Southern Corridor of gas infrastructure extending from Azerbaijan into Southern Europe. Despite rhetoric to the contrary, it was clear the Kremlin wished to use natural gas as a political tool. In order for countries such as Romania to hold up against outside pressure, they needed to know that they had strong support from the United States. Romania was in a better position than many thanks to its domestic energy resources, but internal production was dwindling. It was "very dangerous" to risk being cut off by the only current supplier. For this reason, Medar explained, Romania had in March extended its supply contract with Gazprom by 25 years.

¶19. (C) However, Medar continued, Romania was actively pursuing alternatives such as the Nabucco pipeline to bring Caspian (and perhaps Trans-Caspian) gas through Turkey, Bulgaria, Romania and Hungary to Austria and Western Europe. It was also exploring a Liquefied Natural Gas (LNG) terminal

in cooperation with Qatar. He had been told in Washington that Romania and other countries in the region seemed "a little paranoid" about Russia, Medar said. However, Gazprom's actions in Ukraine, Algeria, Hungary, Italy and elsewhere betrayed a strategy of encircling Europe, eliminating competition and exploiting its dominant position for political purposes. Recent efforts to isolate and pressure Bulgaria on the Burgas-Alexandroupolis oil pipeline were more of the same. Even if Gazprom could be kept out, they were always involved through middlemen and banks, including banks with Western names and faces. U.S. commercial and political involvement, on the other hand, could help balance the market. American participation "will show Gazprom that the U.S. has a stake in Europe's energy market, you know what game Gazprom is playing, and you do not accept it," Medar said.

¶20. (C) The U.S. could provide political support to those countries looking to foster competition, Medar said, by assuring Romania and other states that the U.S. would stand behind them and that Turkey was onboard and willing to play fair. A Turkey-Azeri transit agreement would be a good signal to this effect. In Romania's case, the U.S. could support Romania's effort to develop Qatari LNG by encouraging Turkey not to raise barriers. While LNG was theoretically free to pass the Turkish Straits, Ankara could always find a way to keep it out if it wants to. With both Qatar and Nabucco, it would be possible to say "hasta la vista, Gazprom," said Medar. The National Security Advisor followed up the meeting with Bryza by traveling to Washington the following week for expert-level discussions on realizing the Southern Corridor.

MINISTRY OF ECONOMY: HELP US GET THERE

¶21. (C) In a meeting with DAS Bryza on October 26, Romanian Minister of Economy and Commerce Ioan-Codrut Seres warned that Hungary is losing interest in Nabucco as a vehicle for transporting Azerbaijani rather than Russian gas. Bryza conceded that in Budapest, senior representatives of the private oil company MOL noted that MOL's cooperation with Gazprom on Blue Stream II, as well as its commercial reliance on Siberian crude, made the Hungarian company increasingly interested in supplying Russian gas through Nabucco. Seres added that Hungarian Minister of Economy Janos Koka is much more pro-Russian this year than last. We are seeing the same attitude from Bulgaria recently, Seres said. Both Seres and Prime Minister Tariceanu's chief economic and diplomatic advisors emphasized that Nabucco is a constant agenda item at the regular joint Romanian-Hungarian Cabinet meetings. Romania needs U.S. support on Nabucco and the Pan European Oil Pipeline (Constanta to Trieste) to counter growing Russian influence. While Nabucco is attracting commercial interest, Seres acknowledged that PEOP has yet to do the same.

¶22. (C) In contrast to Hungary's wobbling, Azerbaijani President Aliev told President Basescu during the latter's Baku visit earlier this month that Azerbaijan was committed to export Shah Deniz Phase II production through Nabucco. Seres had heard the same in follow up meetings at Azerbaijan's Ministry of Energy. Bryza suggested that the GOR reach out to the other Nabucco developers, both governments and companies (especially the Austrian company OMV) to follow-up on the Basescu visit to Baku. Bryza further suggested that Romania and Hungary place the issue of Azerbaijani gas for Nabucco on the agenda for the next Joint

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Cabinet meeting of the two countries. Bryza indicated that the U.S. could not support shipment of Iranian gas through Nabucco. Seres agreed. He added that Romania and Azerbaijan will conclude a bilateral agreement on energy cooperation in the near future. Seres plans to be in Washington in early December and asked for assistance in meeting DC principles at State, Commerce, Energy and Defense.

FOREIGN MINISTRY: WE NEED A EUROPEAN POLICY ON ENERGY AND THE BLACK SEA

¶23. (C) During a meeting with Deputy Foreign Minister Adrian Vierita, EUR DAS Matt Bryza praised Romania for its role in protecting Uzbek refugees, highlighting the need for a Black Sea Strategy, and helping promote democracy in Georgia. Bryza then urged that it was time to band together with nearby countries to negotiate more mutually beneficial terms in energy agreements with Russia. Vierita reinforced the message that energy was high on Romania and the EU's agenda and that Romania opposed Russia's use of energy as a political tool. Vierita mentioned the need to prepare for the German presidency of the European Council by talking to the Germans about a European Neighborhood Policy "plus" (ENP plus). He noted there was no reference to the Black Sea Region in the pre-draft of ENP. Romania's priority was to put the Black Sea Region at the top of the agenda, he said.

¶24. (C) On Georgia, Romania was trying to persuade Tbilisi not to be too outspoken. Vierita also mentioned President Basescu's attempt to reach out in a balanced, friendly approach toward both Armenia and Azerbaijan during recent visits. Bryza welcomed Romania's efforts, citing the critical role Romania played in Georgia's Rose Revolution by helping to restrain tension even while supporting democratic forces.

¶25. (C) Vierita commented that he had heard from friends in the business community that Russia was trying to enter into the financial scheme of Nabucco through non-Russian firms. Bryza said he would not be surprised and cited reports of how Russian oligarch (and suspected organized criminal and terrorist-supporter) Mikhail Chernoi did the same with RAFO, using a series of Austrian front companies and banks to mask his ownership. The Ambassador added that he had previously told Romanian officials that if they keep selling their major assets to the Russians they would deserve what they would get. Vierita noted there were plans by a German company to build gas storage in Romania. Bryza advised that Romania be careful about sales of gas storage, which is essential both to mitigate the impact of potential gas cutoffs and to manage a gas distribution company efficiently.

¶26. (C) Citing the importance of collective action to secure more mutually beneficial energy agreements with Russia, Bryza welcomed the EU's Green Paper, but called for immediate action, as the Commission would likely take a long time to elaborate a strategy to implement the Green Paper's vision. Bryza suggested that action be built on the Treaty of Athens and the Southeast Energy Community to further regional cooperation. The Ambassador emphasized the importance of providing Russia with competition, even if it was just one alternative pipeline. Vierita mentioned that he would be the one responsible for crafting Romania's new approach toward Russia.

¶27. (C) In September, FM Ungureanu had also stressed to Bryza that developing alternative sources would be difficult without a common European approach. Europe had been slow to respond in January when Gazprom closed the tap to Ukraine. The Energy Green Paper was a start, but the real substance of a framework for producer and supplier relations was under development now. Two groups existed in Europe: those who wanted to work with Russia, and those looking for alternatives. If we wished to advance the "alternatives" agenda, the U.S. needed to press the Finnish Presidency right away on an energy framework. Otherwise, the German presidency would push the agenda toward Gazprom, energy deals would continue to be handled bilaterally, and Gazprom would continue to divide and conquer, killing any alternative options. If Germany managed both the conclusion of a common EU energy strategy and the upcoming EU-Russia Partnership Agreement, the result would be predictable, he said.

COMMENT

¶28. (C) There is no doubt in Bucharest of the importance of U.S. involvement if Europe's energy markets are to diversify.

U.S. leadership will be required not only to mitigate Turkish ambitions to emerge as an energy hub, but also to push other transit countries (including Romania) to make the necessary concessions to Turkey's role that will move projects like Nabucco forward. DAS Bryza encouraged all Romanian interlocutors to take action to move the agenda in collaboration with regional governments and the companies that will finance and build the projects, possibly by convening a high-level meeting of the Nabucco Five, Turkey and Azerbaijan, timed to follow Azerbaijan's pending conclusion of a gas supply contract with Gazprom.

¶29. (C) In promoting European energy diversity, Romania is well positioned to take on Gazprom thanks to its own domestic energy resources. Romania produces approximately 40 percent of its oil needs and 60 percent of its gas. However, we should avoid encouraging too forward a Romanian position that may be seen as a threat by potential partners in Ankara and elsewhere.

¶30. (U) This cable has been cleared by Deputy Assistant Secretary Matt Bryza.

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